

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Carrier Oversight & Programs Branch**

**RESOLUTION T-17447  
November 6, 2014**

**R E S O L U T I O N**

**Resolution T-17447. Approval of California High Cost Fund-A  
Administrative Committee Fund Expense Budget for Fiscal Year 2015-16  
(July 1, 2015 through June 30, 2016) to Comply with the Requirements of  
Public Utilities Code Section 273 (a).**

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**Summary**

This resolution adopts an expense budget of \$43.328 million for Fiscal Year (FY) 2015-16 for the California High Cost Fund-A (CHCF-A) program.

**Background**

Public Utilities (P.U.) Code § 275.6 requires the California Public Utilities Commission (Commission) to implement a program for universal service support to reduce rate disparity in rural areas. Accordingly, the Commission Decision (D.) 88-07-022 as modified by D.91-05-016 and D.91-09-042 implemented the California High Cost Fund (HCF) to provide a source of supplemental revenues to three mid-size and seventeen small Incumbent Local Exchange Carriers (ILECs), whose basic exchange access line service rates would otherwise need to be increased to levels that would threaten universal service goals.

D.96-10-066 changed the name of the California HCF to CHCF-A, otherwise known as the California High Cost Fund-A Administrative Committee Fund, and also created the California High Cost Fund-B (CHCF-B) program. The decision maintained the CHCF-A for the 17 small ILECs, and created the CHCF-B program, which included the three mid-size LECs, for the purpose of determining universal service support.

The CHCF-A was initially comprised of 17 small ILECs. D.08-10-010 authorized the consolidation of three small CHCF-A ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden State and Global Valley Networks, Inc., with the midsize CHCF-B ILEC, Citizens

Telecommunications Company of California Inc., (now doing business as Frontier Communications of California). Additionally, D.13-05-028 authorized another consolidation of Frontier Communications West Coast Inc., into the larger ILEC, Citizens Telecommunications Company of California Inc. doing business as Frontier Communications of California. Accordingly, 13 small ILECs that are eligible for CHCF-A funding now provide service in rural areas of California.

PU Code § 270(b) states that the monies in the CHCF-A and five other funds may only be expended pursuant to PU Code §§ 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-2002, the CHCF-A Fund expenditures have been authorized in the state's annual Budget Act.

In September 2013, the Commission adopted a total CHCF-A program budget for FY 2014-15 of \$39,547,769 in Resolution T-17400. The FY 2014-15 budget approved amounts for the following budget components: State Operations, \$1,474,077; Local Assistance, \$37,837,692; FI\$Cal, \$228,000; and State Controller's Office, \$8,000. These amounts were appropriated in the state budget for FY 2014-15.

The Commission continues to review the CHCF-A program in Rulemaking 11-11-007 and whether the program needs to be modified to more efficiently and effectively meet the program's universal service goals. The Rulemaking is examining several issues that may affect the future CHCF-A program funding level of the small ILECs. The Rulemaking is active with evidentiary hearings having been held in September 2014, and a Commission decision is expected over the next few months.

CHCF-A is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. The Commission established the current surcharge rate of 0.18% of intrastate revenue for the CHCF-A in Resolution T-17398, effective October 1, 2013.

The CHCF-A program was slated to sunset on January 1, 2015 (See P.U. Code § 275.6(g)). However, on September 22, 2014 the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.

## **Discussion**

In this Resolution, CD proposes a CHCF-A program expense budget of \$43,328,314 for FY 2015-16. This proposed budget reflects the small ILECs' estimated CHCF-A claims, (carrier claims being the sole component of Local Assistance and subject to CD staff analyses to determine respective appropriate funding levels), along with estimates for State Operations, FI\$Cal, and State Controller's Office expenses.

**STATE OPERATIONS (Appendix A, line 1)**

State Operations expenditures for the CHCF-A program consist of the following:

- Administrative Committee Costs
- Direct program Staff Costs and Benefits
- Audit Personnel Billing to Program
- Pro Rata
- Audit-Contract
- IT Automation-Contract
- Contracted Program Administration Costs
- Cost Allocation

In FY 2014-15 the State Operations appropriation for the CHCF-A program is \$1,474,077. CD has reviewed the anticipated State Operations expenditures for FY 2015-16, and has determined that the FY 2014-15 appropriations level for State Operations resembles the level of forecasted expenses in FY 2015-16. Accordingly, CD recommends that the Commission adopt an equivalent State Operations estimate of \$1,474,077 for FY 2015-16.

**LOCAL ASSISTANCE (Appendix A, line 2)**

Local Assistance consists of carrier claims to the CHCF-A program. To qualify for and receive CHCF-A funding, the small ILECs are required to file an advice letter for a general rate case (GRC) subject to the CHCF-A waterfall provisions, and to receive the CHCF-A subsidy reimbursement.

Carrier payment levels are impacted by the Implementation Rules from D.91-09-042, which established a phase-down of the CHCF-A funding level effective January 1st following the year after the completion of a small ILEC's GRC. According to these rules, CHCF-A funding levels for GRC ILECs associated with program claims are maintained at 100% of the total claim amount for the first three years after a GRC completion, with funding decreasing to 80% by the fourth year if no subsequent GRC application is filed, then reducing to 50% for the fifth year, and further reducing to 0% thereafter, until a subsequent GRC application is filed. This 6-year phase down of funding level is commonly known as the "waterfall".

Local Assistance payments for FY 2015-16 are estimated at \$41.813 million, based on data submitted to CD by small ILECs in May 2014. This estimate is \$3.975 more than the \$37.838 million in Local Assistance funding approved for FY 2014-15 in Resolution T-17400. CD made this calculation in two steps. CD first assumed GRC funding for completed GRCs during Test Years (TY) 2015 and 2016, and relied on carrier CHCF-A

funding estimates provided in their May 2014 CHCF-A forecasts. Second, in recognizing that carriers' estimates have been historically overstated somewhat compared to actual results, CD applied an 86.5% of forecasted revenue requirement increase figure, which it identified as the historical average revenue requirement approval percentage, to arrive at the \$41.813 million forecast.

CD recommends a Local Assistance estimate of \$41.813 million for FY 2015-16 and believe it is reasonable given a review of past carrier claims estimates and prior Local Assistance forecasts.

**FI\$Cal (Appendix A, line 3)**

The Financial Information System for California (FI\$Cal) line item is based on the appropriations recommended in the Governor's FY 2014-15 budget of \$41,000 for development of the FI\$Cal system, an integrated system for budgeting, accounting, procurement, cash management, financial management, and financial reporting.

**STATE CONTROLLER'S OFFICE (SCO) (Appendix A, line 4)**

The SCO's line item is based on the appropriations recommended in the Governor's FY 2014-15 budget of \$237 for services rendered by the Controller's Office.

**Total Program Expenses**

The proposed CHCF-A budget for FY 2015-16 is \$43,328,314 (\$1,474,077 for State Operations; \$41,813,000 for Local Assistance; \$41,000 for FI\$Cal, and \$237 for State Controller's Office.

Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance), 0840 State Controller (State Operations), and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015. To the extent that appropriations adopted in the Budget Act of 2015 differ from the FY 2015-16 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2015 will supersede the budget adopted in this resolution.

In addition, Appendix A compares CD's forecasted FY 2015-16 expense budget versus the FY 2014-15 expense budget that the Commission adopted.

## **Other CHCF-A Program Issues**

### Department of Finance (DOF) Audit

During 2012, auditors from the Department of Finance (DOF) conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD), including the CHCF-A. The DOF's audit report contained recommendations and the Commission has followed those recommendations in the preparation of this budget resolution

### Cost Allocation

Beginning July 1, 2014 CPUC implemented a new costs allocation plan that directs how CPUC's administrative charges will be allocated to the sixteen special funds the agency administers, as well as expenses charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, HR and IT), facilities operations (rent, security and utility expenses), as well as Executive Division, Administrative Law Judge, and a portion of shared, legal expenses.

Using the new cost allocation plan methodology administrative expenses are allocated to funds primarily on a Personnel Year (PY) basis; funds that support more staff proportionally have more CPUC indirect charges. CPUC initiated development of a new cost allocation plan as a corrective action in response to a 2013 Department of Finance audit that highlighted the agencies lack of an updated, comprehensive, and methodologically consistent plan for allocating indirect charges to special funds and grants.

As a result of implementing the new plan, some CPUC special funds received higher proportions of costs allocation than had been allocated in previous years due to the changes in methodology related to defining administrative cost "pools" and PY analysis. Indirect charges will be built in as line-items into all funds as part of FY 2015-16 budget proposals.

### CHCF-A Administrative Committee (AC)

The CHCF-A AC charter charges the AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program and requires the AC to meet at least quarterly.

P.U. Code § 273(a) requires the CHCF-A AC to submit a proposed budget including estimated program expenditures and the committee's projected expenses for the fiscal

year commencing thirteen (13) months thereafter to the CD Director. On May 21, 2014, the CHCF-A AC held a public meeting to discuss the proposed FY 2015-16 expense budget. On June 24, 2014, the AC Chairperson submitted a proposed \$44.989 million FY 2015-16 CHCF-A AC budget to the CD Director.

Appendix A summarizes CD's forecasted FY 2015-16 expense budget of \$43.328 million versus the FY 2014-15 expense budget of \$39.548 million that the Commission adopted.

## **Safety Issues**

The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 by undertaking all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A subsidy provides carriers with the resources to provide safe, reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable telephone service is essential in these generally rural areas that are sometimes isolated. The CHCF-A program provides financial support to the Small ILECs to aid them in providing customers with access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or other crises occur.

PU Code § 275.6 promotes customer access to advanced services and deployment of broadband-capable facilities in rate base, which benefits emergency response providers, educational institutions, teachers and students to have access to high speed broadband for their important uses.

CHCF-A funding has allowed the Small ILECs to locate their facilities underground and use fiber optic cable which protects equipment in case of fire and allows for the quicker deployment of broadband-capable facilities. In some Small ILEC territories, emergency responders set up emergency command centers and the Small ILECs must quickly provide responders with access to high quality voice communications and broadband.

This Resolution ensures that the CHCF-A program continues to promote the goals of universal service by subsidizing essential communications links in high cost, rural communities.

## Conclusion

Communications Division's forecasted costs for the FY 2015-2016 budget are included in Appendix A and are summarized in Table 1:

**Table 1**

<b>Description</b>	<b>FY 2015-16 Proposed Budget</b>
State Operations	\$ 1,474,077
Local Assistance	\$ 41,813,000
FI\$Cal	\$ 41,000
SCO	\$ 237
Total Program Expenditure Budget	\$ 43,328,314

In this Resolution, we adopt the proposed FY 2015-16 CHCF-A expense budget of \$43.328 million. Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO), will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor. The FY 2015-16 Budget adopted today is subject to final appropriations adopted in the Budget Act of 2015. To the extent that appropriations adopted in the Budget Act of 2015 differ from the FY 2015-16 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2015 will supersede the budget adopted in this resolution.

## Notice/Protests

Notice of the CHCF-A AC's Proposed Expense Budget for FY 2015-16 was published in the Commission Daily Calendar on July 17, 2014. No parties submitted protests.

## Comments on Proposed Resolution

In compliance with P.U. Code § 311 (g), the Commission on October 3, 2014, provided notice to the 13 small ILECs, the CHCF-A AC, and parties of record in R.01-08-002 and Application 99-09-044, informing them that this proposed Resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comment. Additionally, CD informed these parties of the availability of the conformed resolution at the same website.

On October 20, 2014, the Small ILECs filed comments on the proposed Resolution. The Small ILECs assert that CD made an across the board reduction of 86.5% to forecasted FY 2015-16 carrier claims submitted by the Small ILECs in their response to a data

request sent by the CD Director in March 2014. Counsel for the Small ILECs stated that this reduction to carrier claims would result in insufficient appropriation authority and could negatively impact the Small ILECs' ability to offer safe and reliable service to rural customers.

The Small ILECs further assert that a shortfall took place in 2002-2003, requiring significant additional effort by the Commission and the Small ILECs in navigating the "government claims" process, the Legislative process, and the Department of Finance appropriation process.

While CD understands the concerns of the Small ILECs about the budget shortfalls, CD is employing new budget guidelines recommended by Department of Finance. These guidelines include a zero balance budgeting process as well as budget to budget and budget to actual comparisons as part of the budget review process. As Small ILECs have over-budgeted claims to some modest degree in recent years, it is necessary to reflect this experience in forecasting FY 2015-16 expenses.

CD also clarifies that it did not apply an 86.5% across the board reduction to the Small ILECs' forecasted carrier claims. Instead, CD employed an 86.5% adjustment to historical GRC estimates provided by the Small ILECs, in anticipation of GRCs expected to be filed during the 2015-16 Fiscal Year. CD created a chart of recent Small ILEC GRC-requested funding versus Commission-adopted funding to arrive at this methodology. As part of our review process, CD used the highest percentage of requested funding to adopted funding from the results of several GRCs, which was 86.5%, and applied that percentage to the Small ILECs forecasted GRC's during the FY 2015-16 period. CD then incorporated this data into the aggregate Small ILECs FY 2015-16 revenue requirement calculation to arrive at an overall CHCF-A support amount. Accordingly, CD has not changed the estimates in the proposed resolution.

## Findings

1. Public Utilities (PU) Code § 275.6 requires the California Public Utilities Commission (Commission) to implement a program for universal service support to reduce rate disparity in rural areas.
2. PU Code § 270(b) states that the monies in CHCF-A Administrative Committee (AC) Fund may only be disbursed pursuant to PU Code § 270-281 and upon appropriation in the annual Budget Act.
3. Rulemaking 11-11-007 is examining how the CHCF-A program can more efficiently and effectively meet the goals of universal service. The Rulemaking may affect the future funding level of the small Incumbent Local Exchange Carriers (ILECs) and a decision is expected by the end of this year.



4. The authorizing legislation for the CHCF-A program, P.U. Code §275.6(g), was set to expire on January 1, 2015. However, on September 20, 2014 the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.
5. Communications Division's proposed FY 2015-16 expense budget of \$43.328 million (\$1,474,077 for 8660 State Operations; \$41,813,000 for Local Assistance; \$41,000 for 8880 Financial Information System for California (FI\$Cal); and \$237 for 0840 State Controller's Office (SCO) is reasonable and should be adopted.
6. Final appropriations for 0840 SCO, 8660 State Operations and Local Assistance, and 8880 Financial FI\$Cal will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor.
7. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015 for State Operations, SCO Operations, and FI\$Cal.
8. The appropriations adopted in the Budget Act of 2015, if different from the adopted FY 2015-16 budget, will supersede the FY 2015-16 Budget adopted in this Resolution.
9. In 2012, the Department of Finance conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD) including the CHCF-A.
10. On June 24, 2014, the CHCF-A AC submitted to the Director of CD, a proposed Fiscal Year (FY) 2015-16 expense budget for the CHCF-A AC Fund, totaling \$44.989 million.
11. The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 by undertaking all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."
12. The CHCF-A AC proposed expense budget was noticed in the Commission's Daily Calendar on July 17, 2014.
13. In compliance with P.U. Code § 311 (g), the Commission, on October 3, 2014, provided notice to the 13 small ILECs, the CHCF-A AC, and parties of record in Rulemaking 01-08-002 and Application 99-09-044, informing them that this draft Resolution is available at the Commission's website <http://www.cpuc.ca.gov/>

and is available for public comment. Additionally, CD informed these parties of the availability of the conformed resolution at the same website.

14. The Small ILECs filed comments on the draft Resolution on October 20, 2014.

**THEREFORE, IT IS ORDERED that:**

1. The expense budget for the California High Cost Fund-A Administrative Committee Fund for Fiscal Year 2015-16, in the amount of \$43,328,314, comprised of \$1,474,077 for State Operations; \$41,813,000 for Local Assistance-Carrier Payments; and \$41,000 for FI\$Cal, and \$237 for State Controller's Office, is adopted.
2. Communications Division staff is authorized to modify the Fiscal Year 2015-16 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2015 for 8660 State Operations and Local Assistance, 0840 State Controller's Office and 8880 Financial Information System for California.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 6, 2014. The following Commissioners approved it:

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PAUL CLANON  
Executive Director

APPENDIX A

CALIFORNIA HIGH COST FUND-A ADMINISTRATIVE COMMITTEE FUND										
PROGRAM BUDGET										
							July 2014-June 2015	July 2015-June 2016	July 2015-June 2016	
	Program Expenditures						Adopted per Res. T-17400	Proposed	Adopted per Res. T-17447	
	a						b	c	d	
1		State Operations					\$ 1,474,077	\$ 1,474,077	\$ 1,474,077	
2		Local Assistance					\$ 37,837,692	\$ 41,813,000	\$ 41,813,000	
3		FISCAL					\$ 228,000	\$ 41,000	\$ 41,000	
4		SCO					\$ 8,000	\$ 237	\$ 237	
5										
6		Total Program Expenditures					\$ 39,547,769	\$ 43,328,314	\$ 43,328,314	